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PREPARING FOR THE POST-NAKASONE ERA

Summary

Prime Minister Yasuhiro Nakasone has defied all the odds in Japanese politics. He rose to power despite significant obstacles and has been in office as prime minister and president of the Liberal Democratic Party far longer than anyone expected. It appears, however, that Mr. Nakasone's remarkable tenure is drawing to a close at last. While he will continue to influence the political situation because of the size of his personal faction, it might finally be safe to predict that a new leader will occupy the twin offices of LDP president and prime minister before the end of the year. With that Japan will return to politics as usual, although several new faces on the horizon could revitalize the political scene.

From the Heights to the Depths

Yasuhiro Nakasone was on top of the world less than a year ago. Through adroit political maneuvering, he was able to fulfill a strong personal ambition by calling double elections in July 1986 that strengthened the Liberal Democratic Party's hold on the Diet's upper house and garnered it a record number of seats in the powerful lower house. The prime minister, hoping to secure an unprecedented change in party rules later that year to enable him to remain in office, opted for a high risk strategy and made the election campaign a referendum on his leadership. The party's overwhelming victory made it impossible for party rivals to thwart that bid. Mr. Nakasone reorganized his cabinet and officially began serving his fifth year as LDP president in October 1986.

Yet the situation has changed dramtically in just one year. Voters had second thoughts as soon as the ballots were counted. Did the LDP actually win too many seats in the balloting? Would the majority party become overconfident in the wake of its stunning victory at the polls and press the conservative agenda beyond acceptable limits? Would Mr. Nakasone use the margins to stamp his personal imprint on the fabric of Japanese society?

Those questions were answered quickly. The LDP did not try to muscle its opposition off the Diet floor but did tackle what proved to be a disastrous political and economic problem: finding new revenue sources as part of a program of tax reform. While most party officials agreed that some new revenue source was essential, no politician was willing to risk his political future to resolve the problem. None, of course, except a prime minister at the peak of his power and prestige.

Mr. Nakasone embraced proposals to institute a 5 percent value-added tax while trying to placate voters with the promise of tax cuts and tax simplification. The plan was controversial from the start. Domestic opponents were angered at the prospect of a heavier tax burden and the likelihood of a hike in the sales tax rate in the future. With the economy just muddling along, international critics charged that a value-added tax was counterproductive and urged fiscal stimulus instead. Rivals contended that the prime minister had broken his campaign promise not to institute a new large-scale tax. (The prime minister insisted that he was only favoring a small-scale indirect tax, but the voters did not accept this description.)

The popularity that the prime minister had nurtured so carefully for three years plummeted. Polls showed the cabinet's ratings were dropping with each new round of the sales tax debate, lowering its approval to a level more familiar to earlier political leaders. The gravity-defying popularity of the premier returned to earth with a thud.

Rivals of the prime minister promptly launched another round of predictions that he would soon be forced to resign from office. These forecasts took on new weight once it became clear that the ruling party would lose seats in April's prefectural elections. Once again, however, his political opponents underestimated the prime minister's staying power. As each successive resignation rumor proved false, it became clear that Mr. Nakasone was intent on serving the full-year term awarded by the party leadership.

It now appears that Mr. Nakasone's departure is inevitable. The value-added tax debate may have caused irreparable damage. Although the cabinet has benefited from a rebound in public opinion polls since the LDP agreed to drop the controversial proposal, the increase has been slight. The political damage has been done. Mr. Nakasone is expected to resign on schedule in October, ending his five-year tenure as head of the government. (Only two leaders have served longer in the postwar period: Shigeru Yoshida, who held office for over seven years in two different stints, and Eisaku Sato, who held office for four terms.)

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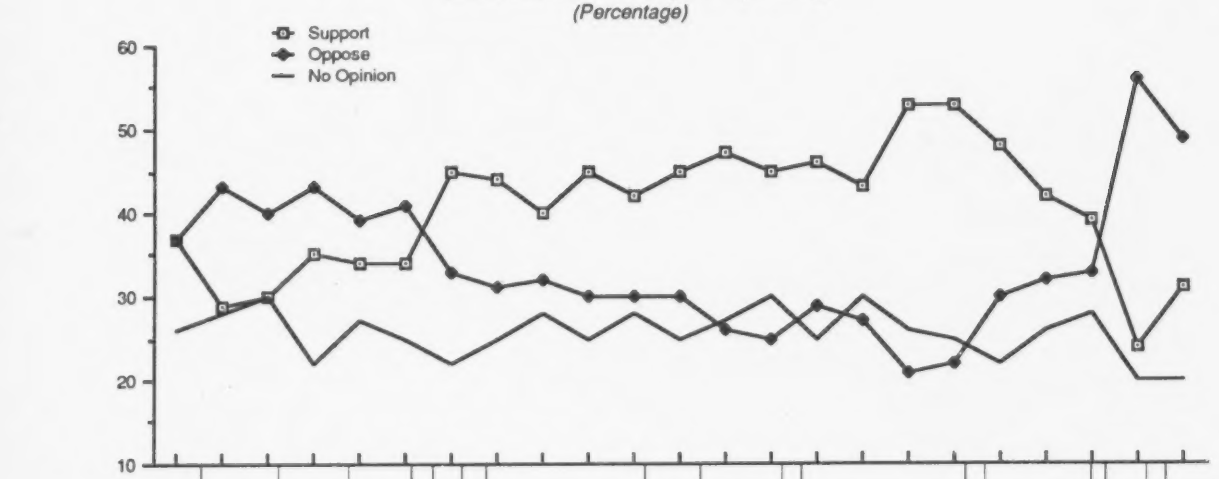
Nakasone Cabinet Popularity Ratings

(Percentage)



First U.S. visit *(1/83)*

Williamsburg summit *(6/83)*

Tanaka convicted *(10/83)*

Lower house elections; coalition government *(12/83)*

Ethics reforms *(1/84)*

Beef/citrus negotiations *(4/84)*

Financial liberalization *(4/84)*

MOSS talks begin *(1/85)*

NTT/JTS privatization; import liberalization speech *(4/85)*

Action program *(7/85)*

1% defense debate *(9/85)*

Tokyo summit *(6/86)*

Double elections *(7/86)*

Sales tax proposed *(12/86)*

Defense 1% policy eliminated *(1/87)*

Prefectural elections *(4/87)*

Sales tax dropped *(5/87)*

The Succession Race

Who will succeed the man that once was criticized as a political weathervane? If a forecast was made today, it would probably favor former finance minister Noboru Takeshita. An extremely popular figure in the LDP, Mr. Takeshita's reputation is based on strong political ties in the party rather than on specific policies. This is fortunate because at one point he was labeled "Mr. High Yen" -- a reference to his role in the September 1985 Group of Five agreement that precipitated the yen's rise against the dollar. The only thing that saved him from political ruin was the subsequent designation of Kiichi Miyazawa as finance minister. Despite his continuing efforts and frequent assurances that the worst was over, Mr. Miyazawa has been unable to prevent the yen from appreciating further, making his predecessor's record less damaging.

At this point, Mr. Takeshita has both the numbers and the financial backing to make him the odds-on favorite in the LDP presidential sweepstakes. His situation is an odd one, though, since most of his immediate support comes from a faction that he does not officially lead. Traditionally, party presidents have assumed the leadership of their own personal faction first. Mr. Takeshita is the favored candidate of the faction of former prime minister Kakuei Tanaka, who was felled by a serious stroke over two years ago and remains in very poor health. The faction itself is nominally headed by Susumu Nikaido. Mr. Nikaido's influence in the party has been waning over the last several years, however, and he is thought to be vulnerable to a challenge by the younger Takeshita.

It is critical that Mr. Takeshita secure the support of the bulk of the faction one way or another. Inheriting the overwhelming majority would give him clear numerical superiority over other contenders. Should he attract just a simply majority or slightly more, his faction would be nothing more than one among many, reducing his leverage within the party. However, it would be unseemly at best and a political disaster at worst if he were simply to declare himself head of the faction. Furthermore, it might be considered poor judgment to openly oppose Mr. Nikaido for leadership of the faction.

Consequently, Mr. Takeshita has been forced to build support for his candidacy largely through surrogates and other indirect means. He has a very strong ally in party elder and Deputy Prime Minister Shin Kanemaru. Mr. Kanemaru has served as something of a broker in the LDP for the last several years -- filling the role that once was played by Mr. Nikaido. Mr. Kanemaru was a key figure behind the Nakasone-Takeshita alliance that engineered the double election strategy of 1986. While the plan favored the short-term goals of the prime minister and Mr. Takeshita's long-term objectives, its value to the party as a whole was what sold it to more reluctant supporters. Mr. Kanemaru has now assumed that same pivotal role in the succession race. He must steer clear of any suggestion of personal bias, however, because Mr. Takeshita is his son-in-law.

The other two so-called "new leaders" are Finance Minister Miyazawa and Shintaro Abe. former foreign minister and currently LDP executive council chairman. Foreign observers frequently tag Mr. Miyazawa as Mr. Nakasone's heir apparent. They are wrong. While Mr. Miyazawa has a distinguished record as a

public servant and opinion maker, he lacks the type of political support generated by the Takeshita campaign. While respected, he is not immensely popular and his reputation has been buffeted by the rise in the value of the yen. In any case, he faces an uphill battle despite his qualifications: should intra-party negotiations over a successor become entangled -- for whatever reason -- he could emerge as a compromise candidate. His relative lack of political punch vis-a-vis other contenders would actually benefit him in this case, although it would also mean a short tenure. But more creditable scenarios for resolving a deadlock exist. It is at least equally likely that the party elders would turn to a figure such as chief Cabinet Secretary Masaharu Gotoda until a more powerful politician emerged.

That leaves Mr. Abe, the former foreign minister now executive council chairman -- a post at least as important as his four years in the Nakasone cabinet. It appears certain that the time will come for Mr. Abe -- but not now. In a society that values seniority, Mr. Abe is the youngest of the three "new leaders." (Mr. Miyazawa is senior, but his political liabilities offset the emotional support he might otherwise be able to count on.) Furthermore, in recent months reports originating in Japan have suggested that the prime minister and Mr. Abe have reached an understanding that Mr. Abe will assume the LDP presidency after Noboru Takeshita.

Mr. Nikaido's recent declaration for the LDP presidency complicates the picture in several respects. The immediate problem is that he has declared as the official candidate of the Tanaka faction -- without bothering to take so much as a straw poll among its members, although his action is said to have had Mr. Tanaka's blessing. Moreover, it increases to four the number of potential candidates and raises the possibility of a party primary to narrow the field. Primaries are required under current LDP rules when there are four or more candidates. The rank and file -- currently about 2 million party members -- then cast ballots, and the party convention, which consists of all LDP Diet members, elects one of the top two candidates by majority ballot. It was through this method that Mr. Nakasone won the post of prime minister -- despite the fact that he was not very popular among senior LDP officials and had a relatively small faction in the party. It is highly likely that the party elders want to avoid a situation in which another dark horse emerges.

The reasons for Mr. Nikaido's move remain unclear, but at age 77, he is many years senior to Mr. Takeshita and may feel that this is his last chance. He may also want to salvage his position in the faction, which seems to be eroding. He also faces an uphill struggle. Party rules indicate that candidates must be endorsed by 50 Diet members if their campaigns are to continue. Nikaido supporters seem to believe they can secure the required number by supplementing their support from the Tanaka faction with nonaligned politicians and representatives of the ailing Komoto faction. At this stage, however, it appears that Mr. Nikaido's total will fall short.

Ironically, the declaration of his candidacy may have backfired by forcing Mr. Takeshita to defend his turf and prompting other faction members to declare their loyalties sooner than they had anticipated. At Mr. Kanemaru's urging, Mr. Takeshita held a political rally on June 3 to indicate his intention to seek the party presidency, although he stopped short of making a declaration at the time. More than 100 of the Tanaka faction's 141 members

attended the event or sent representatives, suggesting that when the time comes, Mr. Takeshita will inherit the overwhelming majority of the faction. By declaring so early, Mr. Nikaido may have forced more than a few members to side with Mr. Takeshita in the race. Until that time most observers felt that he could count on the support of no more than 80 of the faction's members, although a significant percentage of the 100-plus attendees are considered "soft" supporters.

Finally, there is one more potential runner in the race: Prime Minister Nakasone. The odds at this stage are overwhelmingly against his attempting to hold on for another year or so in office. He would be forced to amend LDP succession rules to allow him even a day longer as party president. Even if that obstacle could be overcome, he would face fierce resistance among those who have patiently waited their turns for the top job. Still, the prime minister might see an opportunity if party members are unable to broker a deal among the three leading contenders, although it is far more likely that Mr. Nakasone will retire and assume the role of senior statesman.

Factional Balances in the Liberal Democratic Party

Name of Faction	Number of Members
Tanaka	142
of which Takeshita (approximate)	118
Miyazawa	89
Nakasone	87
Abe	86
Komoto	33
Independents	10

The Nakasone Record

How will Mr. Nakasone's successors measure up to his record? While many Japanese observers discount the overall influence of the prime minister in formulating policy, there can be no argument that he has played an important catalytic role in the policymaking process. Most of the prime minister's important domestic and international policies, including government reorganization, financial and trade liberalization, and a broader involvement in international security areas, had their origins in earlier years, but Mr. Nakasone did project a sense of personal concern that was highly effective.

Thus, he can claim at least partial credit for accelerating many policy developments and saving others from suffocating under bureaucratic delays. He began modestly, yet significantly, with the 1983 Williamsburg summit, when Japan directly declared its status as a member of the Western alliance. The commitment worked both ways. In the eyes of the average Japanese voter, it meant acceptance by the West as an equal -- an important and symbolic gesture. While the significance of that event tends to be overemphasized, the sense of equality achieved by the nation contributed to public support for the country's expanded international role, increased foreign assistance and higher defense

spending. The image of Japan's prime minister standing shoulder to shoulder with other world leaders -- instead of in the background as had been the case with his predecessors -- was and is an important one for Japan.

Another precedent has been the prime minister's length of service. While his rivals resented the fact that he held on to power far longer than the recent two-year average, he was in a position to assure policy consistency and stability -- important considerations for a country that increasingly is expected to play an important global role. The experience and exposure gained by former Foreign Minister Abe would not have been possible had Mr. Nakasone resigned at the end of this first term. As a result Mr. Abe will be a familiar figure to other world leaders when his time comes to assume the top job in the government.

At the same time, the resistance to the Nakasone mold could manifest itself in a reversion to the old ways once he steps down. The potential is particularly high with such figures as Messrs. Takeshita and Abe. While the latter is more likely to come into office with a general vision of Japan's role in the world, the former is very likely to let policies bubble up from the lower and middle levels of the government and party without significantly influencing their course, focusing his actions on efforts to work out a consensus.

While this may be a totally effective way of presiding over Japanese domestic policymaking, it is doubtful that it will prove workable in the international arena, where there is a particularly strong sense of crisis management that has demanded quick responses by Tokyo. Mr. Nakasone has been able literally and figuratively to "stand tall" with other world leaders, projecting a sense of place in the international arena that enabled him to manage the country's foreign policy and international trade interests. Many Japanese observers feel that leaders perceived by other nations as weak are more vulnerable to pressures that could damage national interests. While the Nakasone style often has irritated other politicians and senior bureaucrats, it nevertheless has been conducive to effective management in several critical foreign policy areas.

Economic and Defense Policies

Regardless of who becomes the new prime minister, however, it is unlikely that there will be any major shift in Japan's policies. As noted earlier, many if not most of the policies of the Nakasone era were already established in form or spirit before he took office. There are exceptions to this, however. The degree and pace of government policy changes were significantly influenced by the prime minister's political outlook. In addition to the catalytic role noted earlier, it is extremely doubtful that the government's one percent defense spending limit would have been abolished if, say, Kiichi Miyazawa had been prime minister at the time.

Deciphering the precise policy leanings of the upcoming candidates is difficult, but some differences are noticeable -- especially in comparison with Mr. Nakasone -- and could have important implications for economic and diplomatic policies. Mr. Miyazawa has articulated a personal political philosophy far more extensively than most Japanese politicians. Although he currently

heads a ministry still largely committed to tight government budgets, he personally favors a more stimulative economic policy. During the 1984 LDP presidential round, he outlined a program for doubling Japan's economic wealth, patterned after the income doubling campaign of the Ikeda government in the early 1960s. There is no indication that he has abandoned that concept. Mr. Miyazawa is perhaps the most "dovish" of the three "new leaders," and staunchly resisted abandoning the one percent policy. While he is a supporter of the U.S.-Japan alliance, he has been characterized by informed observers as highly critical of the management of that relationship, favoring a more aggressive posture toward the United States in defending Japanese economic interests.

Mr. Abe is best known for his position supporting Japan's official development assistance. His years as foreign minister gave him considerable exposure to international issues and in that respect he, like Mr. Miyazawa, is well-prepared for the premiership. A highly touted "Abe doctrine," which would promote Japan-ASEAN ties, was introduced shortly before the end of his tenure as foreign minister, but like the Fukuda doctrine it mirrored, little has become of it since. It is difficult to identify an Abe approach to domestic economic policies, although one might be able to find a few hints in the record of a former prime minister, Takeo Fukuda, who turned leadership of his faction over to Mr. Abe less than a year ago. Mr. Fukuda played a significant role in the formation of Japan's economic policies when he headed the Economic Planning Agency in 1974-76, squeezing out the oil shock-induced inflation of the period. As the heir to Mr. Fukuda's faction, one might surmise that Mr. Abe would be influenced by Mr. Fukuda's thinking on domestic economic policies.

On defense, Mr. Abe is expected to favor modest increases in defense outlays. Indeed, it is difficult to imagine his deviating much -- in terms of either spending increases or cuts -- once the current five-year procurement program concludes (it is in its third year). He has effectively used the controversy surrounding higher budgets to lobby for increased aid. Defense proponents might try similar leverage should Mr. Abe press for increased aid in the future, a likely possibility given his strong identification with the issue. His relationships with American leaders reflect the same positive aspects as the vaunted Ron-Yasu friendship; that equates with cordial and effective ties with the United States.

Of the three, the frontrunner's policies are the most difficult to divine. Mr. Takeshita would probably be the most favorable of the three toward business interests (although it is more a matter of degree rather than a fundamental divergence). As indicated earlier, he would be most likely to preside rather than rule -- or even actively attempt to influence or mold the decision-making process. His record is closely linked with progress in such areas as financial liberalization, which he sees as in the country's best interests. As the head of government, however, he would be more sensitive to the complaints of those interest groups negatively impacted by such changes. In foreign and security policies, he would probably favor the status quo over any new policy initiative.

Once Mr. Nakasone leaves office, there will be several obstacles to any policy changes that could impede even the most aggressive leader. While many foreign critics would disagree, Japanese policymakers feel that the country has been considerably transformed during the Nakasone years and that the time has

come to consolidate rather than supplement those changes. This is particularly true in international trade, since a multilateral negotiating round is approaching and the country has made what it feels are dramatic policy changes favoring liberalization at a time when the trend in many other industrial countries is toward protectionism. Japanese negotiators have at times felt beseiged by a seemingly endless series of demands to eliminate or modify one standard or practice after another. The perception in Washington may differ, but it is possible that the next Japanese administration will look for an opportunity to catch a "breather" in terms of instituting new policy initiatives.

The Post-Post Nakasone Era

What will happen after the governments headed by today's contenders come and go? While it is easy to identify the likely successors to Mr. Nakasone, it is far more difficult to predict the future potential contenders. One short list -- far from definitive -- would include the following:

- Koichi Kato - A member of the Miyazawa faction who has served two terms as director general of the Japan Defense Agency, Mr. Kato came into office with a reputation as a dove, yet emerged as one of Japan's most articulate spokesmen for a balanced defense buildup and increased interaction with the United States to achieve a more effective defense. Mr. Kato has served six terms in the Diet's lower house and at age 48 could have a long and brilliant future in Japanese politics, according to informed observers. He seems to have few drawbacks and boasts a prior career in the Foreign Ministry, overseas educational experience, and exposure to constituent concerns such as agriculture and forestry. Mr. Kato is considered a natural for leadership of the faction once Mr. Miyazawa retires.

- Motoo Shiina - Mr. Shiina is a rarity in Japanese politics: he is widely respected and wields considerable influence in party policymaking circles yet remains unaligned with any specific faction. Like Mr. Kato, the 54-year-old Shiina has gained increased stature in recent years through his input on defense discussions, emerging as something of a Sam Nunn of the Diet. He has a respected political lineage and has assumed important positions in the LDP's policy affairs research committee, considered by many observers as a "must" for higher office in Japan.

- Michio Watanabe - A key member of the Nakasone faction, Mr. Watanabe is likely to inherit the Nakasone faction when the appropriate time comes. He has served as acting secretary general and minister of international trade and industry at different times. Mr. Watanabe is 64 years old.

- Toshiki Kaifu - Although pundits frequently designate Mr. Kaifu as an emerging star on the Japanese political scene, he will have a difficult time overcoming the troubles facing his faction, which is led by Toshio Komoto. Yet at 56, he has time to accomplish that and may eventually restructure the group, whose fortunes have suffered as Mr. Komoto's influence has faded. Mr. Kaifu was one of the few members of the faction beside Mr. Komoto to hold a position in the Nakasone government, serving as education minister in the fourth Nakasone cabinet.

A pressing and still unresolved question concerns the fate of the Tanaka faction. Although it appears likely that Mr. Takeshita will inherit the bulk

of its members, any number of individuals within the group are said to be popular enough to split off and form independent factions. This is particularly appealing to these ambitious figures, some observers suggest, because at the age of 62, Mr. Takeshita is likely to remain active for many years to come. The proliferation of factions, however, would complicate the intra-party bargaining process and dilute the influence of established factions by increasing the number of players.

That leaves Mr. Nakasone. His ability to influence the potential process depends on his retaining the loyalty of younger faction members. Mr. Watanabe, for one, might openly challenge Mr. Nakasone after he retires from office, forcing him to relinquish his power to a younger member more capable of generating political favors for the faction as a whole.

The Verdict of History

Recently an observer of the Japanese political scene lamented that "it's too bad Nakasone didn't resign last October. He would have gone down as one of Japan's greatest prime ministers." While that judgment may be harsh, it is undeniably true that the prime minister has lost considerable personal influence as a result of the tax reform/value-added tax debates. A man accustomed to taking political risks, he may have taken too big a chance this time around, ultimately making it impossible for him to remain in office.

But Mr. Nakasone has stretched the rules of Japanese politics to their limits during his tenure. It is highly unlikely that any individual will be able to match that performance for the coming decade. For the next several years, then, it will be business as usual in the Japanese political world -- but not quite -- since expectations are considerably higher these days and the "new leaders" ultimately could take advantage of the precedents set over the last five years. But for the immediate future, it will certainly be a less dynamic reprise.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.